

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

MARKET TEST OF EXPERIMENTAL PRODUCT –  
ALTERNATE POSTAGE PAYMENT METHOD FOR  
GREETING CARDS

Docket No. MT2011-1

NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF MARKET TEST OF EXPERIMENTAL PRODUCT –  
ALTERNATE POSTAGE PAYMENT METHOD FOR GREETING CARDS  
(November 8, 2010)

The United States Postal Service hereby gives notice that it intends to conduct a test of an experimental market dominant product. The experimental product is an “Alternate Postage Payment Method for Greeting Cards.” The new postage payment method provides a means by which individuals will be able to mail greeting cards without affixing postage. Instead, the company producing the greeting cards will pay the postage through a two-stage process. First, at least 50 percent of the postage will be paid to the Postal Service based on the company’s reports of how many cards are sold to customers. Once cards are sold to individual customers, this payment will be retained by the Postal Service regardless of whether the cards are also mailed. The remainder of the postage will be collected based on scans of the cards that are mailed. The company producing the cards will add markings specified by the Postal Service so that the cards are identified in the mailstream through automated scans. These scans will produce a count of how many pieces were processed in the mailstream.

The market test will begin on or shortly after January 1, 2011. At that time cards can be sold by authorized greeting card companies to individual customers or third party vendors.

Subchapter III of Chapter 36, Title 39, United States Code, establishes authority for the Postal Service to conduct market tests of experimental products. The Commission has not yet established regulations creating specific procedures to implement Section 3641.<sup>1</sup>

### **Description of Nature and Scope of Experimental Product Proposal**

This Alternate Postage Payment market test is proposed as an easy, convenient way to send single-piece First-Class Mail<sup>®</sup> greeting cards without affixing postage. It will be a premium product offering, and therefore priced above First-Class Mail single-piece postage. Participating businesses will produce and distribute pre-approved envelopes according to specific design requirements. These envelopes will be packaged for sale with greeting cards. Individuals can mail these preapproved items without the extra steps of determining the postage amount, locating or purchasing postage, and affixing postage. This Alternate Postage Payment method bases part of the postage payment on sales data reported to the Postal Service by participating businesses. It then relies on Intelligent Mail (IM<sup>®</sup>) technology to identify and scan each unique mailpiece as it moves through the postal system, producing a count of the mailpieces during normal mail processing. This mailpiece count is then used to debit the card producer's Centralized Automated Processing System (CAPS) account for the portion of postage that was not paid based on the sales data. The mailpieces can be addressed to any locations desired by the sender.

---

<sup>1</sup> In Order No. 211, the Commission noted that rules on market tests were under consideration and would be proposed in the near term. *Id.* at 7. As of this filing, specific proposed rules have not been issued.

## **Background**

First-Class Mail single-piece correspondence has long been a declining part of U.S. mail volume.<sup>2</sup> Total correspondence sent and received represents about 10 percent of all household mail volumes. Since 2002, correspondence volume has fallen almost 14 percent.

In 1987, households reported receiving 1.6 pieces of personal correspondence, including personal letters, postcards, greeting cards, invitations, and announcements, weekly. By 2009, this number fell to 0.9 pieces per week; and has been declining for more than 20 years. In 2010, single-piece First-Class Mail letters and cards decreased by almost 3 billion pieces. The long-term continued decline in single-piece volume reflects the impact of electronic diversion, which provides an alternative to personal correspondence through the mail.<sup>3</sup>

## **Alternatives to First-Class Mail Correspondence**

To a large extent, the First-Class Mail single-piece decline stems from changes in communication technology, such as affordable long distance telephone service, e-mail, the Internet, and cellular communications—all of which provide an alternative to personal letters. Such advances have transformed the marketplace and will continue to do so well into the future. The rapid growth of Broadband expands the potential scope of electronic diversion of mail even further. Social networking sites such as Facebook also provide an alternative to buying, addressing, personalizing, and mailing greeting

---

<sup>2</sup> U.S. Postal Service, “Form 10-K,” November 16, 2009, p. 7, at [http://www.usps.com/financials/\\_pdf/FY\\_2009\\_10K\\_Report\\_Final.pdf](http://www.usps.com/financials/_pdf/FY_2009_10K_Report_Final.pdf)

<sup>3</sup> 2009 Household Diary Study, Chapter 3.

cards. The Internet allows family and friends to view personal updates and photos online. These shifts to electronic venues have significantly eroded the volume of First-Class Mail greeting cards.

### **Customer Demand**

The increasing availability of new communication technologies make convenience and ease of use a more significant factor in whether consumers will use the mail. Consumers often say that the extra step of providing postage is one of the primary obstacles to sending greeting cards and other correspondence. Typically, a correspondent needs to purchase or locate an already purchased stamp, and affix it to the envelope. Thus, a consumer might purchase a greeting card with the plan to mail it. But if a stamp is not readily available, the card may instead be hand delivered or just set aside.

Under this market test, however, there is no need for the correspondent to pay postage. Instead, the greeting card is nearly ready for mailing at the time it is purchased. The customer can simply sign the card and address it, and drop it in a collection box within minutes of the purchase. This simplicity will make some customers more likely to purchase and mail a greeting card.

### **Product Description**

This Alternate Postage Payment method will make it easier to send single-piece First-Class Mail by eliminating the need to affix postage prior to mailing. Postage will be paid by the card producer based upon sales information, along with scan data captured

during normal mail processing. Mailpieces will feature a combination of the following four elements:

1. Intelligent Mail Barcode (IMb): The IMb encodes the tracking information read by automated mail processing equipment, and enables the recording of piece-level information for volume and revenue reporting. Each participating company will be assigned a unique Mailer ID (MID) solely for this market test. IMb uniqueness (serialization) is required for envelopes distributed under this program.
2. Legend: The legend contains the permit number, the city and state where the permit is held, and identifies the business customer responsible for paying the postage.
3. Facing Identification Mark (FIM): FIM E will be used for this market test to separate and orient the mailpiece as other FIMs do, yet allow separate identification of this mail for future use.
4. Imprint: “No Postage Necessary If Mailed in the United States” will appear in the upper right corner of the address side of the mailpiece.

## **Processes and Pricing**

- **Approval**: Participating companies will be required to meet specific mailpiece design requirements, and must have their designs approved prior to distribution.
- **Acceptance**: Postage payment through this market test will not limit the way the mailpieces may be deposited into the mailstream.
- **Mail Processing and Delivery**: Market test mailpieces will be processed and delivered according to single-piece First-Class Mail letter standards.

- **Partial Payment Based on Sales:** Participating companies will be required to pay at least 50 percent of the postage due in advance, based upon the total mailpieces sold or distributed to either customers or third-party vendors, and the postage amount at the time the sales data are received. This payment generally will be retained by the Postal Service regardless of whether the cards that were sold were also mailed.
- **Remaining Payment Based on Scans:** For each unique mailpiece determined to have been mailed, the remaining First-Class Mail postage is payable to the Postal Service based on IMb scans performed by barcode sorters during normal mail processing, and the postage amount at the time of the scan.
- **Postage Prices:** The Postal Service expects that the Alternate Postage Payment method will be a premium product offering. Greeting card companies will be able to use the product to sell more greeting cards, and their customers will discover a simpler way to send greeting cards in the mail. The Postal Service therefore plans to test the Alternate Postage Payment method at a price above First-Class Mail single-piece postage. The price used for the postage calculation for cards and envelopes with a combined weight of no more than one ounce will be 48 cents, for sales reported or scans completed during the first year of the experiment. The price used for cards and envelopes with a combined weight between one and two ounces will be charged 48 cents plus the second-ounce price, for sales reported or scans completed during the first year of the market test. During the first year, the Postal Service will evaluate how the test is proceeding, from the perspectives of both the Postal Service and its customers.

Based on this evaluation, the Postal Service will determine how to change the price, to reflect market conditions as well as changes in the single-piece price, during the second year of the market test. The Postal Service is therefore proposing a range of prices to apply during the test period. The Postal Service plans to test more than one postage rate during the second year of the test.

- **Postage Due:** Calculated postage will be debited from the customer's Centralized Account Payment System (CAPS) account.

### **Benefits**

- **Postal Service:** The Postal Service reduces the costs of selling stamps to the public, and may see an increase in the proportion of greeting cards that are mailed.
- **Consumers:** Individuals will benefit from a convenient and cost effective way to send greetings and other correspondences. Mailpieces can simply be addressed and dropped in the mail – without buying or affixing stamps, or wondering about the appropriate postage amount. This avoids the questions raised by greeting card envelopes that currently state “extra postage required.”<sup>4</sup>
- **Greeting Card Producer:** Greeting card companies want offerings that make hard copy mail more viable for their customers. The companies can sell cards with market test envelopes to promote purchases by busy individuals. They also can evaluate whether customers are willing to pay extra for cards for which the customers do not need to affix postage.

---

<sup>4</sup> This market test is limited to machinable greeting cards, but is open to cards that weigh more than one ounce, as long as they are identified as such by their barcode.

## **Section 3641 Criteria**

Section 3641 of Title 39 provides the criteria that a market test must meet. As explained below, the Postal Service has determined that the proposed market test would satisfy these requirements for a market test under section 3641.

- The product is significantly different from all products offered by the Postal Service within the two-year period preceding the start of the test (Section 3641(b)(1)).
- The introduction or continued offering of the product will not create an unfair or otherwise inappropriate competitive advantage for the Postal Service or any mailer, particularly in regard to small business concerns (Section 3641(b)(2)).
- The Postal Service identifies the product as market dominant (Section 3641(b)(3)).
- The duration of the market test shall not exceed 24 months (Section 3641(d)(1)).
- The annual revenues from the market test are not anticipated to exceed \$50,000,000 (as adjusted by the change in the Consumer Price Increase since 2007, as determined by the Commission) in any year (Sections 3641(e)(1) and 3641(g)). The Postal Service does anticipate that annual revenues will exceed \$10,000,000 during the market test, so below it requests that the Commission exempt this market test from the \$10,000,000 annual revenue limitation, under 39 U.S.C. § 3641(e)(2).

## **Significantly Different Product**

The Postal Service has never offered a postage payment method in which a portion of the postage is paid based on sales of greeting cards (whether or not they are



ultimately mailed), and the remaining postage is paid based on scans of the cards in the mailstream. Individuals will for the first time be able to send greeting cards to any address they choose, without affixing postage at the time of mailing. Thus, they will not have to worry about how much postage applies to these cards, or take the time to purchase and apply the postage.

Instead, postage will be paid by the greeting card producer, which will pay in part regardless of whether the card is mailed. This test will involve the first payments for pieces that are not actually entered into the mailstream. In exchange, the greeting card company gets to provide its customers with a more convenient card, and charge an extra amount for the card should it wish.

### **Unlikely Market Disruption**

This market test will be limited to a very small portion of the total greeting card volume, and therefore is not likely to create significant market disruption. The Postal Service believes that the introduction of the new Alternate Postage Payment method will not create an unfair or inappropriate competitive advantage for the Postal Service or any mailer. The greeting card market involves significant and diverse competition. During the market test, most greeting cards would continue to be offered without the Alternate Postage Payment markings, thus requiring a stamp or other postage payment method for mailing.

If successful, the Alternate Postage Payment method will improve the attractiveness of mailing for greeting cards. However, because a very large share of all greeting cards will not use the new postage payment method during the test, the

availability of the Alternate Postage Payment method will not lead to dominance of the market by participating companies. Only a small portion of greeting cards are produced by small businesses. The market test will not make the new postage payment method so widely available that it could damage the sales of small business producers of greeting cards. Moreover, other small businesses could be impacted favorably, as the Alternate Postage Payment method may provide an economical way for small businesses to mail greeting cards to their customers.

In sum, this limited market test should not have a substantial effect on competitors or the competitive greeting card market.

### **Characterization as Market Dominant**

The Postal Service identifies the product as market dominant. A “product” is defined in 39 U.S.C. § 102(6) as a “postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.” The definition of “postal service” in 39 U.S.C. § 102(5) states, in relevant part, that the term “refers to the delivery of ... mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto.” As a means for postage payment on mailable greeting cards, this Postage Payment method is a postal product, since it is a means for paying for items that in most cases are sent in the mailstream.

Based on the criteria set forth in Section 3642(b)(1), (2), and (3), this Alternate Postage Payment method would qualify as a market dominant product. Section 3642(b)(1) states that:

The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that

it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

Given the availability of other postage payment methods, the Postal Service cannot arbitrarily set the prices for the market test without ceding a significant level of greeting cards to the other postage payment methods, or to alternative ways to send cards and messages outside of the mail.

Further, in regard to Section 3642(b)(2), this market test is subject to the postal monopoly provided for in the Private Express Statutes because it involves First-Class Mail letters. Finally, in regard to the considerations delineated in Section 3642(b)(3), there are numerous, comparably priced greeting cards available in the private sector, greeting card companies would not be affected in a significantly unfavorable manner, and the impact on small businesses would not be significantly harmful (and very well may be favorable).

## **Timeline**

While efforts to develop the new postage payment method have already begun, the market test will not begin until January 1, 2011. At that time, cards with envelopes prepared to use the Alternate Postage Payment method can first be sold by authorized greeting card companies to individual customers or third party vendors. The Postal Service will evaluate the new postage payment method one year after the commencement of the market test, and adjust the price for this service based upon its

findings. The Postal Service will then analyze the results to determine how to proceed, and whether to make the market test approach permanent.

### **Total Revenues from Market Test**

At least 4 billion greeting cards are mailed each year.<sup>5</sup> If 0.6 percent of these cards switch to alternate postage payment, then revenue generated from the market test would exceed \$10,000,000 ( $.006 * 4B * \$0.48$ ). The Postal Service believes that more than an 0.6 percent market share for Alternate Postage Payment is possible during the market test, and is therefore requesting that the Commission exempt this market test from the \$10,000,000 annual revenue limitation, under 39 U.S.C. § 3641(e)(2). As discussed above, the product is likely to benefit the public and meet an expected demand. Moreover, the product is likely to contribute to the financial stability of the Postal Service, by promoting the mailing of more greeting cards. Finally, the product is not likely to result in unfair or otherwise inappropriate competition. The market test will still be limited by the \$50,000,000 annual revenue limit, which equates to less than 3 percent of the mailed greeting card market (and a lower proportion of the total greeting card market). Limiting the market test to 3 percent of the mailed greeting card market will avoid unfair or inappropriate competition with nonparticipating greeting card companies. Also, as discussed above, the market test is unlikely to create substantial market disruption.

---

<sup>5</sup> This conservative estimate reflects Greeting Card Association estimates that 7 billion greeting cards are purchased each year, and 70 percent of those cards are mailed.  
<http://www.greetingcard.org/AbouttheIndustry/tabid/58/Default.aspx>;  
<http://www.greetingcard.org/LinkClick.aspx?fileticket=mAV6nsATsAc%3d&tabid=71>

Exact volumes and revenues are hard to project, since the extent of consumer preference for Alternate Postage Payment cards over regular cards is unknown, as is the proportion of sold cards that will be mailed.

#### **Data Collection Plan.**

The Postal Service intends to collect data during the market test to better understand (1) the Postal Service's ability to collect postage based on sales data and scans by automation equipment and (2) what proportion of cards that are purchased are entered into the mailstream. The Postal Service also plans to collect cost-related data, including the time spent on approval of test participants and mailpiece designs, and the time and costs to collect postage payments based on both sales data and scan data.

The Postal Service can report the data collection results to the Commission upon request.

#### **Future Steps.**

Depending on the results of the test, the Postal Service may file with the Commission to make the greeting card Alternate Postage Payment method permanent. If so, statutory procedures under the Commission's rules for establishing a new product will be observed.

Consistent with 39 U.S.C. §3641(c)(1), the Postal Service is also filing notice of this market test in the Federal Register.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German  
Managing Counsel, Pricing & Product  
Development

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing & Product Support

---

David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986, Fax -6187  
November 8, 2010